
**Applications of the Amica Mutual Insurance Company to Deviate from the
Fixed-and-Established Rates for Private Passenger Automobile Insurance
Docket Nos. R2004-02 and R2004-03**

DECISION

On January 14, 2004, the Amica Mutual Insurance Company (“Amica”), pursuant to Massachusetts General Laws c. 175, §113B, applied to the Commissioner of Insurance for permission to deviate downward from the rates for private passenger automobile insurance for 2004 which had been fixed and established by the Commissioner in a decision issued December 15, 2003. One application, assigned Docket No. R2004-02, requested a 2.1 percent deviation for all vehicles receiving the 5 percent multi-car discount established under Rule 19 of the Massachusetts Private Passenger Automobile Insurance Manual. The proposed multi-car deviation, combined with the existing Rule 19 discount, would result in a seven percent total discount on coverages written under Parts 1, 2, 4, 5, 7, 8 and 9 of the standard Massachusetts Automobile Insurance Policy, 7th edition. A second application, assigned Docket No. R2004-03, requested a four percent downward deviation on premiums for Parts 1 through 12 of the Standard Private Passenger Automobile Policy for vehicles rated at Step 9 of the Safe Driver Insurance Plan (“SDIP”). By notice dated January 17, 2004, a hearing on both applications was scheduled for February 3. (Exhibit 1) The matters were consolidated for hearing purposes.

I was designated presiding officer for the proceeding. Peter T. Robertson, Esq. and Robert Suglia, Esq. represented Amica, and Thomas McCall, Esq. represented the State Rating Bureau (“SRB”). No other person or entity, including the Attorney General and the Automobile Insurers’ Bureau of Massachusetts, sought to intervene or otherwise to participate in the hearing.

Each of Amica’s filings included the following documents: a deviation abstract on Form SRB-DV-1; a certification of compliance with Division of Insurance requirements for deviation filings; and an explanatory memorandum. The filing for the Step 9 discount included two internal exhibits, one comparing Amica’s loss ratio for vehicles rated at SDIP Step 9 to its loss ratio for vehicles at all other SDIP steps for policy years 2000 through 2002 and one showing IRIS test results of Amica’s two-year operating ratio adjusted for the proposed deviation. The filing for the increased multi-car

discount included two internal exhibits, one comparing loss ratios for vehicles rated at Step 9 that receive the multi-car discount to loss ratios for cars receiving the discount that are rated at all other steps for policy years 2000 through 2002, and another exhibit showing IRIS test results of Amica's two-year operating ratio adjusted for the proposed deviations. The filing for the multi-car discount was marked as Exhibit 2 and the filing for the Step 9 deviation was marked as Exhibit 3. At the hearing, Amica also offered into evidence three affidavits of Mary Q. Williamson, its Senior Vice President and Treasurer, in which she states that the proposed deviations will not adversely affect Amica's financial condition or threaten its solvency. The affidavit on the effect of the multi-car discount was marked as Exhibit 2-A; the affidavit on the effect of the SDIP Step 9 discount was marked Exhibit 3-A; and the affidavit addressing the effect of both was marked as Exhibit 4.

Peter Drogan, FCAS, MAAA, Actuarial Officer for Amica, testified in support of Amica's request. He testified that he oversees all analyses involving Amica's Massachusetts automobile insurance business, as well as the analysis of rate levels throughout the country. He stated that the rate deviation filings and internal exhibits were prepared under his supervision. He testified that internal Exhibit 1 to Exhibit 3, which displays, for policy years 2000 through 2002, the loss ratios for vehicles rated at Step 9 compared to the loss ratios for vehicles at all other SDIP steps, demonstrates the superior loss experience of drivers whose vehicles are rated at SDIP Step 9. Mr. Drogan stated that internal Exhibit 1 to Exhibit 2 demonstrates that the loss ratios for vehicles qualifying for the multi-car discount that are assigned to SDIP Step 9 are superior to loss ratios for the total book of business. He testified that if approved, the deviations would result in premium charges that are adequate, just, reasonable, and nondiscriminatory.

Mr. Drogan also testified that the requested four percent deviation would apply to all coverages and would be made available to all Amica insureds whose vehicles are assigned to SDIP Step 9, and that the multi-car discount on the coverages identified in Rule 19 would be made available to all Amica insureds who qualified for that discount and whose vehicles were assigned to SDIP Step 9. He clarified that, in order to receive the deviation, the vehicle must be assigned to an individual operator who is rated at SDIP Step 9. In addition, Mr. Drogan stated that, if the eligibility rules relating to the multi-car discount were expanded to include both motorcycles and automobiles as qualifying vehicles, Amica would apply the discount in accord with the changed rule.

Mr. Drogan testified that the deviations would be available in all areas and territories, to both voluntary and ceded business, and to business written by exclusive representative producers ("ERPs"). He stated that, although Amica does not currently offer any group discount programs and has no plans to do so, should the company decide to offer any discount programs, it would apply the proposed deviations multiplicatively in conjunction with the discount. Further, he stated, no companies affiliated with Amica are licensed to write private passenger automobile insurance in Massachusetts, and Amica has no servicing agreements with other carriers relating to the handling of its ERP business. Mr. Drogan testified that the deviations would not be used by Amica as a means of attracting only such risks which would be regarded as presenting less hazard of loss than other risks in the same classification. In addition, he stated, the dollar cost of the deviations would have an insignificant effect on Amica's two-year operating ratios.

The SRB stated that based on the record presented, but without endorsing any particular argument, input or methodology presented by Amica, it had no objection to the approval of Amica's proposed deviations.

Analysis

The statutory standards applicable to rate deviation requests, set out in G. L. c. 175, §113B, ¶1, require that the Commissioner, before approving a request, hold a hearing and, on the basis of the record, find that the deviation is justified and that the reduced premium charges are adequate, just, reasonable and nondiscriminatory and will not be used as a means of attracting risks which present less hazard of loss than other risks in the same classification. Moreover, ¶1 requires that all deviations shall be uniformly applied throughout the Commonwealth. The Commissioner must consider as well whether the proposal complies with all applicable Massachusetts insurance statutes and regulations.

The word "classification" has been interpreted to include all risks at each SDIP step. *Application of Liberty Mutual Insurance Company*, DOI Docket No. R95-23. As discussed in that decision, this interpretation is consistent with the important goal of encouraging safe driving. Similarly, the class of vehicles which qualify for the multi-car discount established under Rule 19 of the Massachusetts Private Passenger Automobile Insurance Manual has been previously characterized as a classification for purposes of a proposed rate deviation. *Application of Liberty Mutual Insurance Company*, Docket No. R96-22. Amica has shown a reasonable expectation of reduced costs for risks in the classifications for which it seeks deviations. Furthermore, the evidence shows that the proposed rate deviations will produce rates that are adequate, just, reasonable and nondiscriminatory and will not materially affect the company's solvency. Amica's IRIS ratios will not change significantly if the deviations are allowed.

Therefore, after consideration of all the evidence presented, I find that the requested deviations are justified and that the deviated premium charges that Amica desires to use are adequate, just, reasonable and nondiscriminatory, and will not be used by Amica as a means of attracting only such risks as are regarded as presenting less hazard of loss than other risks in the same classification. I find, further, that the deviations will be applied uniformly throughout the Commonwealth. Accordingly, Amica's requests for a four percent downward deviation from the 2004 Massachusetts private passenger automobile insurance rates for insured vehicles rated at SDIP Step 9, and for a 2.1 percent downward deviation for all vehicles rated at SDIP 9 that also receive the five percent multi-car discount as established under Rule 19 of the Massachusetts Private Passenger Automobile Insurance Manual are approved.

February 9, 2004

Jean F. Farrington, Esq.
Presiding Officer

This decision may be appealed in the manner and to the extent permitted by G.L. c. 26, §7 and c. 175, §113B.